

1 Q. Please state your name, business address and position with PacifiCorp dba Utah  
2 Power & Light Company (the Company).

3 A. My name is David L. Taylor. My business address is 825 N. E. Multnomah, Suite  
4 800, Portland, Oregon, where I am employed as the Cost of Service Manager.

5 **Qualifications**

6 Q. Please briefly describe your education and business experience.

7 A. I received a Bachelor of Science in Accounting from Weber State College in 1979  
8 and an MBA from Brigham Young University in 1986. I have been employed by  
9 PacifiCorp since the merger with Utah Power in 1989. Prior to the merger I was  
10 employed by Utah Power, beginning in 1979. At the Company I have worked in the  
11 Accounting, Budgeting, and Pricing and Regulatory areas. From 1987 to the present  
12 I have held several supervision and management positions in Pricing and Regulation.

13 Q. Have you appeared as a witness in previous regulatory proceedings?

14 A. Yes. I have testified on numerous occasions in California, Idaho, Montana, Oregon,  
15 Utah, Washington and Wyoming.

16 **Purpose of Testimony**

17 Q. What is the purpose of your testimony?

18 A. I will present PacifiCorp's year-end March 2001 functionalized Class Cost of Service  
19 Study.

20 Q. Please identify Exhibit No. 14 and explain what it shows.

21 A. Exhibit No. 14 is the summary table from PacifiCorp's year-end March 2001 Class  
22 Cost of Service Study for the State of Idaho. It summarizes, both by customer group  
23 and by function, the results of the year-end March 2001 cost study. Columns A and

1 B identify the rate schedules, or classes of customers, currently served in Idaho.  
2 Column C lists the test period revenue for each customer class. Column D lists the  
3 earned rate of return for each class and the Rate of Return Index, shown in column E,  
4 is the ratio of each class's rate of return to the overall normalized jurisdictional rate of  
5 return. Column F shows the total cost of service for each rate schedule or the  
6 revenues necessary for each customer class to produce the jurisdictional normalized  
7 rate of return. Columns G through K list the cost of service by function. Columns L  
8 shows the revenue increase or decrease necessary to bring each class of service to full  
9 cost of service and column M shows the associated percent change.

10 Q. Please identify Exhibit No. 15 and explain what it shows.

11 A. Exhibit No. 15 shows the cost of service results in more detail by class and by  
12 function. Table 1 summarizes the total cost of service summary by class and tables 2  
13 through 6 contain a summary by class for each major function.

14 Q. Please explain how the Cost of Service Study was developed.

15 A. The Class COS Study is based on PacifiCorp's year end March 2001 normalized  
16 results of operations for the State of Idaho. The study employs a three-step process  
17 generally referred to as functionalization, classification, and allocation. These three  
18 steps recognize the way a utility provides electrical service and assigns cost  
19 responsibility to the groups of customers for whom those costs were incurred.

20 Q. Please describe functionalization and how it is employed in the Cost of Service  
21 Study.

22 A. Functionalization is the process of separating expenses and rate base items according  
23 to utility function. The production function consists of the costs associated with

1 power generation, including coal mining, and wholesale purchases. The transmission  
2 function includes the costs associated with the high voltage system utilized for the  
3 bulk transmission of power from the generation source and interconnected utilities to  
4 the load centers. The distribution function includes the costs associated with all the  
5 facilities that are necessary to connect individual customers to the transmission  
6 system. This includes distribution substations, poles and wires, line transformers,  
7 service drops and meters. The retail services function includes the costs of meter  
8 reading, billing, collections and customer service. The miscellaneous function  
9 includes costs associated with Demand Side Management, franchise taxes, regulatory  
10 expenses, and other miscellaneous expenses.

11 Q. Describe classification and explain how PacifiCorp uses it in the cost of service  
12 study.

13 A. Classification identifies the component of utility service being provided. The  
14 Company provides, and customers purchase, service that includes at least three  
15 different components; demand-related, energy-related, and customer-related.

16 Demand-related costs are incurred by the Company to meet the maximum demand  
17 imposed on generating units, transmission lines, and distribution facilities. Energy-  
18 related costs vary with the output of a kWh of electricity. Customer-related costs are  
19 driven by the number of customers served.

20 Q. How does PacifiCorp determine cost responsibility between customer groups?

21 A. After the costs have been functionalized and classified, the next step is to allocate  
22 them among the customer classes. This is achieved by the use of allocation factors  
23 which specify each class' share of a particular cost driver such as system peak

1 demand, energy consumed, or number of customers. The appropriate allocation  
2 factor is then applied to the respective cost element to determine each class' share of  
3 cost. A detailed description of PacifiCorp's functionalization, classification and  
4 allocation procedures and the supporting calculations for the allocation factors are  
5 contained in my workpapers.

6 Q. How are generation and transmission costs apportioned among customer classes?

7 A. Production and transmission plant and non-fuel related expenses are classified as  
8 75% demand related and 25% energy-related. The demand-related portion is  
9 allocated using 12 monthly peaks coincident with the PacifiCorp system firm peak.  
10 The energy portion is allocated using class MWhs adjusted for losses to generation  
11 level.

12 Q. Are distribution costs determined using the same methodology?

13 A. No. Distribution costs are classified as either demand related or customer related. In  
14 this study only meters and services are considered as customer related with all other  
15 costs considered demand related. Distribution substations and primary lines are  
16 allocated using the weighted monthly coincident distribution peaks. Distribution line  
17 transformers and secondary lines are allocated using the weighted NCP method.  
18 Services costs are allocated to secondary voltage delivery customers only. The  
19 allocation factor is developed using the installed cost of new services for different  
20 types of customers. Meter costs are allocated to all customers. The meter allocation  
21 factor is developed using the installed costs of new metering equipment for different  
22 types of customers.

23 Q. Please explain how customer accounting, customer service, and sales expenses are

1 allocated.

2 A. Customer accounting expenses are allocated to classes using weighted customer  
3 factors. The weightings reflect the resources required to perform such activities as  
4 meter reading, billing, and collections for different types of customers. Customer  
5 service expenses are split between Demand Side Management (DSM) expenditures  
6 and other customer service expenses. The DSM expenditures are allocated on the  
7 number of customers in each class. Sales expenses are allocated to rate schedules  
8 according to revenue.

9 Q. How are administrative & general expenses, general plant and intangible plant  
10 allocated by PacifiCorp?

11 A. Most General plant, intangible plant, and administrative and general expenses are  
12 functionalized and allocated to classes based on generation, transmission, and  
13 distribution plant. Employee Pensions and Benefits have been assigned to functions  
14 and classes on the basis of labor. Costs that have been identified as supporting  
15 customer systems are considered part of the retail services function and have been  
16 allocated using customer factors. Coal Mine plant is allocated on the energy factor.

17 Q. Are costs and revenues associated with wholesale contracts included in the cost of  
18 service study?

19 A. No costs are assigned to wholesale sales contracts. The revenues from these  
20 transactions are treated as revenue credits and are allocated to customer groups using  
21 appropriate allocation factors. Other electric revenues are also treated as revenue  
22 credits. Revenue credits reduce the revenue requirement that is to be collected from  
23 firm retail customers.

1 Q. Are there any differences in this study from those filed previously with the Idaho  
2 Commission?

3 A. This class COS Study and the supporting jurisdictional results of operations were  
4 prepared using the same general methodology as previously filed studies with a few  
5 modifications. In previous studies, interruptible customers were removed from  
6 jurisdictional results. No costs were assigned to these customers and their revenues  
7 were treated as revenue credits which were allocated to all states. In the  
8 interjurisdictional allocation supporting this cost study, all special contract customers  
9 have been assigned to their home states as firm, situs customers.

10 Q. What are the reasons for changing the status of interruptible and other large special  
11 contract customers from system allocation to state situs customers?

12 A. There are several reasons that system-wide revenue requirement treatment is no  
13 longer appropriate. First, this approach has not proved acceptable to all states. Under  
14 the current approach, every state needs to become comfortable with the terms and  
15 prices of every contract in every state. In the last few rate cases there have been  
16 proposals from intervenors and regulators in the various states to either impute  
17 revenue for the existing contracts in other states or to shift to situs assignment of  
18 costs for those contracts. Second, market prices and the Company's avoided costs  
19 now make the contribution to fixed cost standard much harder to meet. In nearly  
20 every case prices under the contribution fixed cost standard would be higher than full  
21 embedded costs. Third, including a price discount for interruptibility in an electric  
22 service agreement assigns a fixed value to the interruptibility over the term of the  
23 agreement. However, the drastic changes in the wholesale market over the last

1 couple of years have shown us that interruptibility can have very different values at  
2 different points in time. Recognition of those different values can best be dealt with  
3 in separate, shorter-term interruptibility agreements. Also, under the Company's  
4 Structural Realignment Proposal, there will be no interjurisdictional allocation of  
5 costs to which system-wide revenue credits can be applied. Each state electric  
6 company will have the obligation to serve all the retail load in its service territory. If  
7 the current interruptible loads are removed from the apportionment of the existing  
8 generation and transmission resources, the state electric company will be left without  
9 the resources to meet that obligation.

10 Because of these reasons it is more appropriate to treat the sales of electricity from  
11 PacifiCorp to large contract customers under one agreement and to treat any  
12 interruptibility provisions a customer is able to provide under a separate agreement as  
13 a power purchase by PacifiCorp from that customer. The Company intends that sales  
14 of electricity to customers such as Monsanto will be full firm service at embedded  
15 cost equivalent prices. The loads associated with firm service to these customers will  
16 be included as part of the jurisdictional allocation and included in the revenue  
17 requirement for the state where they are served. Any interruptible provisions will be  
18 treated as a purchase by the Company's power supply organization and included as a  
19 purchased power cost allocated among all states.

20 Q. How are the Idaho special contract customers treated in the class cost of service  
21 study?

22 A. Because the prices for the two non-tariff customers are being determined in separate  
23 proceedings, they have been treated in this cost of service study as state specific

1 revenue credits. The cost and revenues for these two customers have been included  
2 in the Idaho results of operations, but no costs have been assigned to them in the class  
3 cost of service study. The revenues from the two customers have been allocated to  
4 each of the tariff classes of customers to offset its allocated share of revenue  
5 requirement responsibility.

6 Q. What revenue assumptions did you use for Monsanto and Nu-West?

7 A. The present revenues for these two customers have been estimated at the rate  
8 PacifiCorp has proposed for their contract renewals. These rates are based on the  
9 embedded cost of service for the two customers. (Monsanto, 31.4 mills; Nu-West,  
10 34.82 mills)

11 Q. How have you treated the interruptibility provisions of the irrigation load control  
12 program in your cost of service study?

13 A. The study is being used to determine the cost of firm service to irrigation customers  
14 and will be used to set the firm tariff price. As such, no adjustment to loads was  
15 made. Similar to the treatment for contract customers, any interruptibility provisions  
16 for irrigation customers will be treated as a power purchase by PacifiCorp under a  
17 separate agreement. The Company is developing an optional load control credit for  
18 irrigation customers that will replace the load control program. We have been  
19 engaged in discussions with customers and Commission staff, and plan to file a  
20 program later this year.

21 Q. Have you included your workpapers?

22 A. Yes. Work papers showing the complete functionalized results of operations and class  
23 cost of service detail are included as Exhibit No. 16. Also included in the workpapers



1 is a detailed narrative describing the Company's functionalization, classification and  
2 allocation procedures.

3 Q. Does this conclude your testimony?

4 A. Yes it does.